



County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

October 9, 2012

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

MOTION TO FORMALLY ENDORSE PROPOSITION 30 ON THE NOVEMBER 6, 2012 BALLOT AS AN ESSENTIAL STEP IN THE DIFFICULT BUT NECESSARY PROCESS OF SOLVING CALIFORNIA'S DEEP-SEATED FISCAL PROBLEMS; AND ENCOURAGE ALL CALIFORNIA VOTERS TO VOTE YES ON PROPOSITION 30 AS A MATTER OF URGENT IMPORTANCE (AGENDA ITEM NO. 3, MEETING OF OCTOBER 9, 2012)

Item No. 3 on the October 9, 2012 Agenda is a motion by Supervisor Yaroslavsky and Supervisor Molina to formally endorse Proposition 30 on the November 6, 2012 ballot, which would increase California's Personal Income Tax on higher income earners making more than \$250,000 annually for the next seven years, and impose a ¼ cent increase in State Sales and Use taxes for the next four years, as an essential step in the difficult but necessary process of solving California's deep-seated fiscal problems; and encourage all California voters to vote YES on Proposition 30 as a matter of urgent importance.

Historically, County advocacy positions on ballot initiatives and tax proposals have been a matter of Board policy determination, as there is no existing policy to support ballot initiatives or tax proposals. **Therefore, support for Proposition 30 ballot initiative, which would constitutionally guarantee revenues to local governments to pay for the 2011 Public Safety Realignment and temporarily raise the State Sales Tax rate and specific Personal Income Tax rates on higher income earners to fund education, is a matter for Board policy determination.**

"To Enrich Lives Through Effective And Caring Service"

*Please Conserve Paper – This Document and Copies are Two-Sided
Intra-County Correspondence Sent Electronically Only*

Governor's Original Initiative

On December 5, 2011, Governor Brown released his proposed November 2012 ballot initiative, the Schools and Local Public Safety Protection Act of 2012, which would have: 1) amended the Constitution to permanently dedicate revenues to local governments to pay for the 2011 Public Safety Realignment and provide protections for counties for future unfunded costs; 2) instituted a one-half (1/2) cent temporary increase in the State Sales Tax rate; and 3) temporarily increased the Personal Income Tax for higher income earners to fund K-14 education for five years.

On March 14, 2012, the Governor submitted a revised version of his proposed initiative, which was a result of an agreement between the Governor and the California Federation of Teachers, which had been circulating a separate ballot initiative that would raise taxes to fund education. The revised version combined aspects of the respective ballot measures. That measure was qualified by the Secretary of State on June 20, 2012 and became Proposition 30.

Proposition 30

The key elements of Proposition 30 would:

- I. **Provide Constitutional Protections for the 2011 Public Safety Realignment.** The initiative proposes to:
 - **Guarantee ongoing revenues to local governments for the realigned programs** – requires the State to continuously appropriate the specified Sales Tax and VLF revenues to counties to exclusively fund the realigned programs. If Sales Tax or VLF revenues are reduced or eliminated, the measure requires the State to provide counties alternative funding. The measure also permanently excludes the Sales Tax revenues redirected to local governments from the calculation of the minimum funding guarantee
 - for schools and community colleges.
 - **Protect local governments from additional requirements and increased costs imposed by the State** – restricts the State from imposing additional statutory or regulatory requirements on counties related to the realigned programs unless there is no net additional cost associated with the change or the State provides additional funding.
 - **Eliminate potential mandate funding liability** – under current law, the State could be required to provide local governments with additional

funding (mandate reimbursements) to pay for some of the transferred public safety programs shifted to local governments under the 2011 Public Safety Realignment. This initiative specifies that the State would not be required to provide such mandate reimbursements.

- **Require the State to share unanticipated costs** – requires the State to provide at least 50.0 percent of any new costs that result from certain court actions and changes in Federal statutes and regulations related to the realignment program responsibilities.

II. Institute Temporary Tax Increases to Fund Education. The proposal would temporarily increase the State Sales Tax and the Personal Income Tax for higher income earners to provide an estimated \$6.0 billion in revenue. The revenue generated by the initiative would be included in the calculations of the Proposition 98 minimum guarantee (the requirement that the State provide a minimum annual amount for K-14 education). Specifically, the measure would:

- **Increase the State Sales & Use Tax rate** – temporarily increases the State Sales & Use Tax rate by 0.25 percent for four years beginning January 1, 2013 through the end of 2016.
- **Increase Personal Income Tax rates on higher earners** – temporarily increases the existing 9.3 percent Personal Income Tax (PIT) rate on higher earners. The new tax rates would be effective for seven years and affect approximately 1.0 percent of California PIT filers starting in the 2012 tax year.
 - Increases the tax rate for individuals earning between \$250,000 and \$300,000; heads of household earning between \$340,000 and \$408,000; and joint filers earning between \$500,000 and \$600,000 by 1.0 percent.
 - Increases the tax rate for individuals earning between \$300,000 and \$500,000; heads of household earning between \$408,000 and \$680,000; and joint filers earning between \$600,000 and \$1.0 million by 2.0 percent.
 - Increases the tax rate for individuals earning over \$500,000; heads of household earning over \$680,000; and for joint filers earning over \$1.0 million by 3 percent.

Legislative Analyst's Office Report

On July 18, 2012, the Legislative Analyst's Office (LAO) released an analysis of the proposed initiative and indicates that the measure would reduce the financial insecurity and risk for local governments to operate the 2011 Public Safety Realignment, and would constrain the State from changing or imposing new requirements on the realigned programs without providing commensurate funding.

With regard to the proposed temporary tax increases, the LAO's analysis notes that the potential volatility in the Personal Income Tax revenues from higher income earners makes it difficult to estimate the revenue gains from the proposed temporary tax increase. Nonetheless, the LAO report estimates that the annual increase in State revenues generated from the temporary taxes could be from \$6.8 billion to \$9.0 billion in FY 2012-13 and from \$5.4 billion to \$7.6 billion on average each of the following fiscal years.

Previous Board Actions

On March 18, 2011, the Board approved a motion to instruct the Chief Executive Officer to continue working with the Administration and Legislature to develop a realignment framework and to communicate support of **ACAx1 2 (Blumenfield)** and **SCAx1 1 (Steinberg)**, identical legislative proposals that would have established a constitutional amendment to: 1) extend State Sales Tax and VLF tax rates in effect in 2010 for an additional five years; 2) require that the revenues generated from the tax extension be used exclusively to fund local public safety services realigned to the counties; 3) ensure the State continuously appropriated funding to counties in an amount equal to or greater than the aggregate amount that otherwise would have been provided by the tax extension, after the taxes expired; 4) protect counties from providing a higher service level if the overall effect increased the costs of the realigned programs; and 5) require the State to provide at least 50.0 percent of the non-Federal share of cost increases incurred by counties as a result of changes in Federal law. **County-supported ACAx1 2 and SCAx1 1** failed passage in the Legislature in 2011; however, the constitutional protections and funding guarantees language included in Proposition 30 are substantially similar to the language included in County-supported ACAx1 2 and SCAx1 1.

In addition, on January 24, 2012, the Board approved a motion to support Governor Brown's original ballot initiative which would have: 1) temporarily increased the State Sales Tax and the Personal Income Tax for higher income earners to fund K-14 education; and 2) constitutionally guaranteed revenues to local governments to pay for the 2011 Public Safety Realignment and protect governments from future

increased and unfunded costs associated with administering realigned programs. The Board-approved motion also directed the Executive Officer of the Board to send a five-signature letter to the California State Association of Counties expressing the Board of Supervisors' support for the Governor's proposed ballot initiative. As indicated above, the Governor and California Federation of Teachers combined their initiatives resulting in a modified version of the initiative, for which the Board has not taken a position.

Conclusion

The funding guarantees and constitutional protections included in Proposition 30 are substantially similar to the language which the County supported in previous measures as indicated above. Proposition 30 also proposes an estimated \$6.0 billion in temporary new tax revenue for education for the next five fiscal years (FY 2012-13 through FY 2016-17). Historically, County advocacy positions on ballot initiatives and tax proposals have been a matter of Board policy determination. **Therefore, support for Proposition 30 on the November 6, 2012 ballot, which would constitutionally guarantee revenues to local governments to pay for the 2011 Public Safety Realignment and temporarily raise the sales tax rate and specific PIT rates, is a matter for Board policy determination as we do not have Board-approved policy to support ballot initiatives or tax proposals.**

We will continue to keep you advised.

WTF:RA
MR:AO:ma

c: Executive Office, Board of Supervisors
County Counsel